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# **BRITISH STEEL**

**AT**

# **BRITAIN'S SERVICE**

**Price Twopence**



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## BRITISH STEEL AT BRITAIN'S SERVICE

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### Pattern of Recovery

'Public ownership of iron and steel: Private monopoly has maintained high prices and kept inefficient high-cost plants in existence. Only if public ownership replaces private monopoly can the industry become efficient.'

This quotation is from 'Let Us Face the Future,' the policy statement which Labour placed before Britain at the 1945 General Election.

It is important to remember that 'Let Us Face the Future' was more than a list of proposed reforms. It was a plan designed to provide a basis both for Britain's recovery from war and for a better Britain in the future. To ensure recovery it was essential that our basic industries should be efficient; to attain a truly democratic Britain it was essential that they should be controlled in the interests of the nation as a whole.

Labour therefore asked for, and was given, a mandate to take over the basic industries on behalf of the people. These were fuel and power, transport, and iron and steel. All of them vital in an industrial nation such as Britain.

Under capitalist management these industries had fallen below the standard of efficiency necessary for national recovery and prosperity. Under public enterprise they will be made efficient.

They were run in the sectional interests of a relatively small number of people. Under public enterprise they will be run by and for the community.

### The Three Keys

Steel is basic. It is a restrictive private monopoly. And it is not as efficient as it could be. Even the Americans, staunch supporters of capitalism, have to admit that British steel has suffered under private ownership. A U.S. State Department report says:

'Although steel is one of the foundations of the British economy, the basic plants had for a number of years received inadequate maintenance and little modernisation. At the end of the war, the industry as a whole was inefficient by contemporary standards, although a small amount of new capacity was highly efficient.' *Country Studies*:—'*The United Kingdom*.' 14 January 1948.

Under public enterprise the workers, the technicians and the go-ahead managements will be able, in the public interest, to make this great industry more efficient. They will be emancipated from



the dead hand of sectional interests and the power of the financiers.  
Now we will look more closely at the three propositions presented.  
Steel is basic.  
Steel is a restrictive private monopoly.  
Steel is not as efficient as it could be.

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## **STEEL IS BASIC**

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### **The Uses of Steel**

Steel makes the alarm clock and the spring bed, the bicycle and the razor blade. Thousands of the things we use every day of our lives are made of steel.

Steel makes the machines in the factories, the tractors on the farms, the skeletons of buildings, bridges over rivers, railway lines and the trains that steam along them, merchant ships and fishing trawlers. Manufacture, agriculture, transport, all depend on steel.

Steel is exported as raw material, and as finished goods such as motor cars, tractors, machine tools, and cutlery. It is the backbone of our export trade. It is, therefore, the key to Britain's survival.

In war we need steel for our Navy, Army and Air Force.

### **Steel and Economics**

Steel, then, dominates our economy. Suppose that the price of steel is increased. Then costs—of new machinery, of building, of transport, and of hundreds of other things dependent on steel—will rise correspondingly. The consequential increase in export prices will force foreign buyers to turn elsewhere.

If steel output is restricted then obviously there will be less steel for industry, fewer goods in the shops, less for export and a lower standard of life for everybody.

On the other hand, cheap steel can give us low-cost houses, factories, transport and goods. It can help capture export markets by lowering the costs of production. It can facilitate industrial re-equipment—and so lead to the ever expanding flow of goods required to raise living standards throughout the world. Steel consumption is, in fact, a good index to the standard of living of any nation.

The importance of steel in our economy has never been more clearly demonstrated than today when many of our plans, for industrial expansion, for building, for expanded exports, are restricted by steel shortages. This, despite the magnificent efforts of workers in steel during the past two years.



## **Steel and Full Employment**

Steel, too, has a powerful influence on the level of unemployment. Slumps can start from small beginnings. If steelmasters get the wind up about the future, they retrench and call a halt to the building of new plant. Their fear of a slump then produces a slump. For the makers of the new plant are without orders and have to lay off workers. The unemployed workers buy less—no new clothes and shoes, for example. Then the textile workers and shoemakers have less work to do, and some fall out of work. They in turn buy less, demand falls, and less workers are needed to meet the reduced demand. This downward spiral of falling demand, less work, less work, falling demand ends in mass unemployment.

But the swing of slump and boom can be avoided if national investment is soundly planned. If new investment is undertaken at the right moment, in steel plants, in the rest of industry, in new building, then depression can be averted. In this steel is vital. Not only is the steel industry itself, one of the largest investors in the economy, but steel price policy can encourage or block investment in other industries.

## **The Power of Steel**

Steel, then, is basic; it stands with coal and transport as the foundation of our economy. It is vital as a raw material, for production, for export, and for defence. It affects the standard of living and the level of employment. It places tremendous economic and political power in the hands which control it. How can it be right for this power to be in private hands?

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## **STEEL IS A PRIVATE MONOPOLY**

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### **Growth of Monopoly**

Steel is now run by a private monopoly. In the past, before the 1914-18 war, the industry was relatively free and competitive.

Then after the 1914-18 war, Britain ran into slump. Steel markets dwindled, plants closed and firms collapsed. Large sums were owed to the bankers.

So the banks and other financial interests, during the late 1920s and early 1930s, took control of a large part of the industry and forced independent steel firms into large amalgamations. Today there are a few dominant firms, such as Lancashire Steel Corporation; Dorman Long; Colvilles; Stewarts & Lloyds; United Steel



Group; and the Baldwins Group. Each of these monster groups controls a large number of subsidiaries, and most of them also control iron ore mines, engineering firms, and a wide range of other interests outside the iron and steel industry proper.

### **The Big Six**

These six firms together own about half the steel producing capacity of the entire industry.

But it is a mistake to regard them as entirely independent firms or to imagine that they compete with the smaller firms which produce the rest of Britain's steel. Within the larger firms there are many interlocking directorates and these same directors effectively control most of the smaller firms.

The ramifications of these interlocking directorates are widespread. The directors of the Big Six control about 100 subsidiaries. They collectively hold about 600 seats on the boards of companies inside and outside the steel industry proper.

### **The British Iron and Steel Federation**

As well as being linked through directorships, the separate firms are held together by monopolistic trade associations catering for different sections of the industry. And, surmounting the whole interconnected structure, is the British Iron and Steel Federation, formed in 1934 with dominating power in the industry. It provides the keystone to the structure of private monopoly, which remains a private monopoly although it is nowadays subject to a measure of Government supervision.

At the most, a handful of men of Big Business dominate the entire iron and steel industry and, extending outwards, link it with the rest of industry, the banks, financial houses and insurance companies.

### **Steel Monopoly versus National Interest**

In controlling this industry, upon which the whole economy depends, these men are answerable, not to the nation, but to sectional interests, interests which look upon steel as a way of making money—like dance halls or snack bars. But there is a difference between dance halls and the steel industry. If the dance halls close their doors or operate inefficiently little is lost, but if steel is badly handled our economy totters and the whole nation suffers.

The national interest and the sectional interest of the steelmasters are difficult to reconcile. Sir William Firth, himself a steelmaster, admitted this when the industry was first fused into monopoly with the formation of the Federation.

‘Thirty years close contact with the trade entitles me to believe that I understand its mentality . . . and it is my recognition of the



futility of hoping that individuals will subordinate their private interests to national interests that caused me to criticise the present scheme,' he wrote in a letter to *The Times* on 22 February 1934.

For example, the national interest demands cheaper steel, but the shareholder demands more profit, meaning dearer steel. The nation demands more steel, but the shareholder may always be afraid that if production is expanded beyond certain narrow limits, prices will fall and profits will be reduced.

## **Monopoly and Prices**

Examination of the history of steel prices shows how sectional interests consistently won the battle against the national interest.

Before World War II the private monopoly fixed prices without any effective Government control although there was nominal supervision through the Import Duties Advisory Committee. This Committee, and the Tory Government, favoured the restrictive price-fixing practices of the steelmasters.

When the monopoly was first formed in 1934, promises were made that prices would be kept low.

'... we have repeatedly emphasised the importance of a moderate and stable price policy, and the Federation early accepted this view. In 1934 . . . we announced the intention of the industry, as declared to us, to adopt a policy of low prices,' says the report on the steel industry by the Import Duties Advisory Committee, 1937.

After these promises, prices proceeded to rise. They rose by a third between 1934 and 1939.

Geoffrey Crowther, an impartial observer, now Editor of *The Economist*, underlined this in *Economics for Democrats*, in 1939.

'The result of Conservative steel policy has been to confer enormous advantages on the businessmen of the industry. They have been granted a monopoly and assured of its exclusivity and permanence; and they have been encouraged to use it to raise prices for their product. The policy has beyond question put large profits into the pockets of steel shareholders. And it is equally beyond question that some at least of these profits have come out of the pockets of the consumers of steel—who include, directly or indirectly, almost every inhabitant of the island. But the return that the community has received for this assistance could hardly be detected with a microscope.'

Naturally enough the consumers of steel complained of this price policy. Lord Nuffield, who was a major consumer as a car producer, said in August 1935:—

'The present state of affairs is disgraceful. Unless they change their methods I will go so far as to say that we will buy our



steel outside this country. I only wish I was younger. I would set up a steel plant in this country and put them all out of business.'

During World War II, prices were nominally fixed by the Government. But for some years the Government was baffled by the industry's actual method of price assessment. And—

'... the industry as a whole appears to have obtained a higher rate of profit than that normally allowed under the Ministry's costed contracts.'

wrote the Auditor-General in 1941.

Today the Government, in the public interest, fixes prices. But in so doing it is inevitably to some extent dependent upon the figures and evidence produced by the Federation, which is, of course, acting in the interests of the private profitmakers. This is not a satisfactory method. It was adopted only as a temporary measure pending nationalisation.

## **Protection of the Monopoly**

The monopoly was able to force high prices upon the consumer by eliminating competitors with cheaper steel to offer. In the years before World War II, there were two main sources of competition, the Continental producer, and the independent British producer.

In 1933, the Continental steelmasters were selling low cost, good quality steel to British consumers. More and more cheap steel was imported, and consequently the demand for expensive British steel declined. In part this was due to the relatively greater efficiency of Continental plants, in part to the dumping programme of the Continental steel producers. The Tory Government, however, came to the rescue and, with a 33½ per cent tariff, protected the industry. Even this was not enough—foreign steel plus tariff was still cheaper than monopoly steel. In collusion with the Tory Government, which was ready with a tariff of 50 per cent, the steel industry came to an agreement with the International Steel Cartel which limited the importation of cheap Continental steel.

The excuse for the tariff was that it would give the industry a breathing space in which to reorganise technically and thus compete economically with Continental steel producers. But the breathing space was wasted. The industry failed to reorganise. The net result was that the interests of the steelmasters were protected at the expense of the British consumer who had to pay more for the steel he used.

## **Elimination of Independent Competition**

It was also necessary to eliminate home competitors. In the 1930s, a big firm following an independent line was the South Wales company of Richard Thomas Ltd., which produced a large proportion of Britain's steel and tinplate. In 1935 this firm decided to



open a completely up-to-date integrated plant at Ebbw Vale. With this capacity behind them Richard Thomas could have harmed the whole monopoly price structure.

The monopoly was unable to prevent Richard Thomas from starting to build a new plant. However, Richard Thomas soon ran into trouble. Owing to increased labour costs, an expansion of the original scheme and miscalculations, it became clear, according to the directors' report, that the cost would be higher than planned, and that the firm's available resources were exhausted. When the firm tried to raise money from the banks, they were told 'credit facilities were not available.' They then tried the Treasury, but again they were turned down. The funds needed to complete the building were withheld.

The necessary money was, however, provided in 1938 when Richard Thomas came to heel. Nominees of monopoly firms took over and, in 1945, merged Richard Thomas with the old established firm of Baldwins. The competitor was not only subdued; in the end Richard Thomas was forced to carry a firm which under 'free enterprise' might eventually have gone under.

### **Prevention of Expansion**

The monopoly also had to ensure that no new firm could enter the industry to force prices down by increasing production. In 1934 a syndicate outside the monopoly decided to set up a plant at Jarrow, then a dying town stricken by mass unemployment. The new plant, using modern processes, would have undercut some existing high cost firms and might have driven them out of business, or forced them to modernise. The new plant never opened, Jarrow lost its chance of rebirth, and Britain lost a source of expanded steel capacity which would have been invaluable during the war and in the present battle for recovery.

In the national interest, in peace and war, steel output capacity should be high. But sectional interests demanded that capacity should be restricted in order to boost prices and maintain high cost plant in existence. Sectional interests won again, and that is one of the reasons why, today, we cannot get the output of steel we need for full recovery.

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## **IS THE STEEL INDUSTRY EFFICIENT?**

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We have now seen that steel is a basic industry, and that it has been controlled by private monopoly which has only recently been subjected to a degree of Government supervision. Our third proposition was that the steel industry is not as efficient as it could be.



Here it should be noted that neither the technicians, the managers, nor the workers of the industry can be held responsible for its shortcomings. British steelworkers possess an unmatched skill in the techniques of their craft. British technicians have evolved many major advances in steelmaking and have been called upon to erect plant in all parts of the world. British managers have always been eager to introduce new methods. But monopoly capitalism has obstructed the forward march of the industry by protecting out-of-date plant, instead of building up-to-date and efficient plant.

## **Model of Efficiency**

The Tories, in defence of monopoly steel, argue in the words of Churchill, that steel is 'a record-breaking model of efficiency under private enterprise.'

Yet the industry itself, in its 1945 Development Plan, was forced to admit that 53 blast furnaces, or 40 per cent of total capacity, needed to be replaced; that it was also necessary to scrap steel furnaces producing 30 per cent of current output, about 30 per cent of the rolling mill and 33 per cent of the sheet and tinplate capacity in the industry.

The defenders of monopoly steel blame the war for this..

But if the 1945 failings of the industry were due entirely to the war we would expect to find that the industry was efficient before 1939. Here are some comments on the inter-war years.

## **Comment on Efficiency**

In 1930 the Second Labour Government appointed a Committee of Enquiry into the steel industry, under Lord Sankey. The report of this committee was never published, but according to D. L. Burn in his *Economic History of Steelmaking*, it

' . . . judged the smelting and coke-making branches of the industry wholly antiquated and inadequate; ore-mining and steel-making less so, but still in need of great expenditure . . . '

About the same time an American expert was voicing his robust opinion of British steel. Mr. J. Leonard Replogle, U.S. Steel Administrator during World War I, was reported as saying:

'Great Britain possesses unrivalled opportunities to become supreme in iron and steel . . . but you lack imagination and initiative. Some of your plants are the best in the world . . . but they are few in number. Most of your plants are out of date; some of them were obsolete twenty years ago and are crying aloud to be scrapped.' *Financial Times*. 10 September 1930.



*The Times* declared on 16 August 1933:

'Four or five really modernised large-scale units could produce the entire mild steel requirements of the country far more cheaply than the present multiplicity of unrationalised producers . . . . What is lacking is . . . the carefully systematised planning of the blast furnaces, coke ovens, steel furnaces and rolling mills on a single balanced unit. A big improvement in this respect could be effected without incurring excessive capital expenditure.'

### **More Comment**

In 1934 when the Federation was formed, Sir William Firth, a steelmaster, chairman of Richard Thomas Ltd., said that he did not feel justified

' . . . in stifling my criticism by pretending to approve of a scheme which is masquerading as a reconstruction scheme when it is entirely devoid of any factor which can bring about a reduction of cost, but, on the contrary, by quota and price arrangement . . . will prolong the life of inefficient plants and delay the elimination of cross haulages and the centralisation of manufacture and the erection of up-to-date plants.' Letter to *The Times*, 22 February 1934.

Mr. Henry Summers, himself a steelmaster, said in a letter to *The Times* on 17 March 1934, that the steel trade spent nearly two years

' . . . drawing up schemes which, if adopted, can only prove futile and abortive. The main objects . . . were to bolster up redundant and obsolete plant, and by rings and quotas to put up the cost to the consumer . . . even the majority are unwilling to adopt what is best for their industry.'

The 1937 Report of the Import Duties Advisory Committee stated that 'the provision of more modern and larger blast furnaces' required immediate attention. Even 'at the beginning of the war the industry still had a fair proportion of obsolete plant,' according to *The Times* of 24 February 1945.

And the Industrial Correspondent of *The Times* has painted the following picture of steel works, 1945 vintage:—

'The net result is a heavy proportion of obsolete equipment, or equipment requiring major overhaul and reconstruction. . . . There are too many works which "sprawl"—there is no other word for it—works which are a tangled riddle of gaps, corners, adjacent shops alternately empty and overcrowded, illogical separation, unbalance and tortuous routes and methods in the handling of materials. The works where these things exist are works which are old and have too much history incorporated in their layout. Some of them are reaching a stage where major reconstruction, involving heavy expenditure, is becoming imperative, with the alternative of scrapping and building on a new site.' 24 February 1945



## **Some Improvements Made**

On the credit side we must note that £10 million a year was spent on modernisation between 1934 and 1939.

After long discussion new plants were eventually built at Corby, Ebbw Vale, and Shotton, but in general too much money was spent piecemeal patching up existing outworn plants in order to keep them in production, paying dividends. Money used to scrap old plant and build additional modern integrated plant on the best sites would have increased the output and reduced the price of steel. But this would have driven the existing old plants out of production, and this could never be done by a monopoly which existed to make profit out of all the plant, ancient, modern, or in between.

## **Steel Development Plan**

Since 1945, when Labour was returned with a mandate to nationalise steel, the industry has shown a better face to the world. Under the supervision of the Minister of Supply the industry has shown itself willing to undertake several important technical advances. These, together with the high endeavours of the steel-workers, have resulted in new record-breaking output figures.

The Development Plan, put forward by the industry in 1945, is a good technical piece of work. But why was not a similar scheme produced 11 years before when the industry first promised reorganisation?

## **Death Bed Repentance**

The scheme was called for by the Government in the spring of 1945, and published in December 1945, after the Labour Government had been elected with a mandate for steel nationalization. It is this scheme which is now put forward as evidence that the industry has at last repented for the abuses of the past.

Little faith can be placed in this deathbed repentance. In the main the scheme assembles the development projects already drawn up by individual firms. In certain respects it goes further, suggesting centralisation of production and other changes which might cut across the interests of particular firms. These proposals have in some cases provoked opposition from the firms affected. This can only mean that, left to itself, the monopoly would have difficulty in forcing its members to adopt the plan.

## **The Steel Plan and Expansion**

The scheme envisages a seven-year reorganisation which will result, by 1953, in an annual production of 16 million ingot tons; 13 million for home use, and 3 million for export. But now, in 1948, we are consuming more than 13 million tons at home, and even at this rate we are having to postpone some urgent industrial



plans because of steel shortage. In addition, the German industry, our principal prewar competitor, is working at less than prewar capacity; this, plus the large unsatisfied world-wide demand for steel, means that we could for many years export more than the 3 million tons proposed. We must, therefore, expand capacity as much as raw material shortages permit.

The low target proposed by the steelmasters suggests that they are still afraid that expansion will lead to falling prices and profits.

### **Financing The Development Plan**

The scheme will cost about £200 million (the original estimate was £168 million), half of which the industry estimates can be found from its own resources. If the industry turns to the money market for the rest, high rates of interest will be charged. The high interest rates will then be a burden on the consumer.

The investing public is not enthusiastic about the scheme. When the Steel Company of Wales tried a 3 per cent ten-year Debenture issue in 1947 it was described as

‘ . . . the biggest non-gilt-edged new issue flop since the War.’  
*Daily Express*. 17 July 1947.

The Development Plan hints that public funds should be available to finance the scheme:—

‘There should be adequate funds available for investment in such industrial development as is economically sound, and considered to be in the national interest. The position of the industry as claimant on such funds is particularly strong, as two-thirds of the additional capital to be raised will have a preferential claim as being for expenditure in Development Areas.’

### **Verdict On The Plan**

Despite its limitations the scheme provides a sound basis for reorganisation but it is unlikely that the private monopoly will be able to implement it.

Firstly, the monopoly cannot force its member firms to spend the money needed for modernisation. Secondly, even if it could, there is no guarantee that it could raise the money from normal sources. Thirdly, even if the money were raised, it would probably carry high interest charges which would lie heavily on the future of the industry.

The plan has therefore been accepted by the Government as a step in the right direction, as the best that can be expected from a private steel industry. But full-scale rehabilitation of the industry calls for a national steel plan based on public enterprise. It calls for a plan which will need no endorsement from private shareholders. It calls for a plan which can subordinate sectional interests to national interests. It calls for a plan which will give the able technicians power to reconstruct their industry free from the restrictive veto of private financial interests.



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## WHO SHOULD CONTROL STEEL?

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In order to underline the need for public control of steel we stress again its power over the economy.

Because steel is basic it can make or break our national effort. High prices, reduced output, and failure to modernise the industry can plunge the nation into unemployment and slump.

Low prices, balanced output, and planned investment in steel can prevent unemployment, and stimulate industrial expansion which will lead to a higher standard of living.

It is essential that this basic industry should be controlled according to the national interest. How is this to be done?

### **Monopoly Inevitable**

Firstly, it is important to understand that monopoly is inevitable in the steel industry. Nowhere in the world has it remained in the hands of free competitive private enterprise. And the same reasons have everywhere forced the growth of monopoly. Plant is so big that, using modern methods, a few plants can fulfil most of the demand. New plant is enormously expensive. In these conditions competition cannot be expected; the steel firms stand to lose too much. So they agree, by price arrangement, quota and restriction, to share the market between them. A further cause of monopoly is that investment and production in steel must be closely balanced with demand, and this can only be done if both are centrally controlled.

Under capitalism or socialism, central control is needed. This can be achieved by a restrictive private monopoly, by public control of a private monopoly, or by public enterprise.

### **A Supervised Monopoly?**

History damns private monopoly, and its plans for the future do not redeem it.

The Tories advocate a supervised private monopoly. They would like to see the industry controlled by a Board responsible to the Minister of Supply, on the pattern of the Iron and Steel Board which was set up by the Labour Government in September, 1946. But the most apt comment on Tory policy was provided by the members of the Board itself. In September, 1948, all its members, with the exception of the worker representatives, refused to extend their period of service.

The Board had done good work. But the destruction of the Board by the steelmasters proves that the Tory way of controlling steel is unworkable. As soon as there is a clash between the steelmasters answerable to sectional interests, and the Government, answerable to the nation, the controlling mechanism breaks down.



The steelmasters, defenders of their private monopoly, have proved once more that the shareholder is, in their eyes, more important than the nation. By their petulant action they have clinched the case for nationalisation.

But, in any case, a board controlling a private monopoly must in the long run be ineffective. Its activities must be negative. It can, for example, refuse to recommend a price increase, but it cannot force the industry to take steps to cheapen production. It has no power to make the monopoly spend money on new plant or scrap old plant. A supervised private monopoly can be prevented from doing the wrong things, but it cannot be forced to do the right things. In the future, the control of steel must be dynamic and purposeful, not negative and preventive.

In an attempt to prove that the present supervised monopoly is efficient and adequate, the Tories point to the high production figures of the past few months.

But increased output is to the credit of the technicians and of the steelworkers who, in response to the country's needs, are working a continuous week. This means that the plant is in production 168 hours out of 168, and that the steelworkers are willingly enduring the hardships of round-the-clock working. The steelworkers, it should be remembered, proposed nationalisation as long ago as 1932. Since then they have maintained their demands. Their endeavours today are due to the Government's pledge to nationalise the industry.

There is no hope, then, in a supervised monopoly. The only answer is that steel must be made a public enterprise.

## **Public Enterprise Essential**

Public enterprise in steel will lead to a higher standard of life by making the industry more efficient, more productive, and better able to serve the nation's need.

Public enterprise will not ignore the interests of the workers during reorganisation.

Public enterprise will give all those who work in the industry, from workers to managers, the chance to make a great industry greater still.

Public enterprise will lead to a more equal and stable standard of life by helping to outlaw unemployment.

Public enterprise in steel will ensure that the industry serves the people of Britain, and not the interests of a few.

It will increase the power of the people over the economic forces which govern work and play, peace and security.

The battle for steel will be grim. Steel is now very profitable and so the Tories will try to keep it in private hands. More important still, they want to retain it because, through steel, the privileged can control the life of the nation. Control of steel carries with it the control of the economy. **IN A DEMOCRACY THIS POWER BELONGS TO THE PEOPLE.**



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